

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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GUATEMALA FOR ROCAP

E.O. 11652: N/A

TAGS: ECON, EFIN, PN

SUBJECT: ENACTS NEW ECONOMIC MEASURES GOP

1. BEGIN SUMMARY: IN AN ANNOUNCEMENT COINCIDING WITH CELEBRATION OF GENERAL TORRIJOS RETURN TO PANAMA DURING UNSUCCESSFUL COUP ATTEMPT OF 1969, THE NATIONAL LEGISLATIVE COUNCIL MADE KNOWN THE RESULTS OF A FIVE HOUR DECEMBER 15 SESSION DURING WHICH IT GAVE FINAL APPROVAL TO A NUMBER OF NEW ECONOMIC MEASURES. MOST HAVE BEEN UNDER CONSIDERATION FOR SOME TIME AND INCLUDE CREATION OF THE NATIONAL FINANCIAL CORPORATION (COFINA), A CROP INSURANCE PROGRAM, A MARKETING INSTITUTE AND AN UNEMPLOYMENT COMPENSATION PLAN FOR CONSTRUCTION WORKERS. EXONERATION OF CERTAIN REAL ESTATE TAXES WAS DECREED TO PROMOTE CONSTRUCTION; AUTHORITY WAS GIVEN TO SUSPEND TAXES ON LOCAL TRANSPORT TO PREVENT FARE HIKES; AND CUSTOMS DUTIES ON A NUMBER OF LUXURY ITEMS IMPORTED

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PRIMARILY FOR SALES TO TOURISTS WERE ELIMINATED. END

SUMMARY.

2. COFINA. GIVEN TOP BILLING WAS LONG-AWAITED AND MUCH-DISCUSSED ESTABLISHMENT OF COFINA (PANAMA 2920 AND 7050), HAILED AS MEASURE TO SUPPORT ACTIVITIES AND ENTERPRISES REQUIRING PRIORITY FOR NATIONAL ECONOMIC DEVELOPMENT. COFINA WILL HAVE AUTHORIZED CAPITAL OF \$20 MILLION, TO BE PARTIALLY PROVIDED BY IDB ACCORDING TO ONE REPORT. IT WILL BE DIRECTED BY EXECUTIVE COMMITTEE HEADED BY LIC. JAIME ARIAS AND CONSISTING OF BANCO NACIONAL GENERAL MANAGER DE LA ESPRIELLA, PLANNING MINISTER BARLETTA, AND THREE PROMINENT PRIVATE SECTOR REPRESENTATIVES: CURRENT CHAMBER OF COMMERCE PRESIDENT MARIO DE DIEGO JR. PLUS BUSINESSMEN LIC. JOSE G. MONTENEGRO AND LIC. ARTURO MELO. ANOTHER BUSINESS EXECUTIVE, DR. EDUARDO TEJEIRA, WAS NAMED MANAGER. (COMMENT: STRONG PRIVATE SECTOR ORIENTATION OF COFINA EXECUTIVE COMMITTEE IS OBVIOUS ATTEMPT TO ALLAY SUSPICIONS AND BUILD SUPPORT FOR THIS ORGANIZATION AND FOR GOP ECONOMIC POLICIES IN LOCAL BUSINESS AND PRIVATE BANKING CIRCLES.)

3. CROP INSURANCE. A PROGRAM OF CROP INSURANCE AND AN INSTITUTE TO ADMINISTER IT ARE ESTABLISHED. (COMMENT: THIS WAS ONE OF REMAINING UNFULFILLED PROMISES INCLUDED IN GOP'S MAJOR ECONOMIC PRONOUNCEMENT OF NOVEMBER 1974 (DECLARATION OF BOQUETE). NO FURTHER DETAILS REGARDING HOW PROGRAM WILL WORK WERE GIVEN.)

4. AGRICULTURAL MARKETING INSTITUTE. PROMPT ESTABLISHMENT OF THIS INSTITUTE, PUBLICLY PROPOSED EARLIER THIS WEEK (PANAMA 7725), IS INTENDED "TO GUARANTEE THAT ALL NATIONAL PRODUCTION ARRIVES AT INTERNAL AND EXTERNAL MARKETS AT PRICES WHICH ARE REMUNERATIVE FOR PRODUCERS."

5. UNEMPLOYMENT INSURANCE. A DISMISSAL FUND" (FONDO DE CESANTIA) IS CREATED FOR WORKERS IN CONSTRUCTION INDUSTRY, TO CONSIST OF CONTRIBUTION BY EMPLOYERS IN AMOUNT OF 6 PERCENT OF WORKERS WAGE, DEPOSITED IN OFFICIAL NATIONAL MORTGAGE BANK. WORKERS SO COVERED WILL RECEIVE COMPENSATION FROM THEIR INDIVIDUAL "ACCOUNT" UPON TERMINATION OF CONSTRUCTION PROJECT IF NO FURTHER EMPLOYMENT IS FOUND. (COMMENT: CHAMBER OF LIMITED OFFICIAL USE

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CONSTRUCTION, REPRESENTING EMPLOYERS, HAS BEEN SEEKING SOME SUCH PLAN SINCE LABOR CODE WAS FIRST ADOPTED TO ADAPT CODE REGULATIONS TO SPECIAL REQUIREMENTS OF CONSTRUCTION INDUSTRY).

6. CONSTRUCTION INCENTIVES. THE NATIONAL MORTGAGE BANK IS EMPOWERED TO ISSUE BONDS, CONTRACT LOANS, AND OTHERWISE MAKE AVAILABLE ADDITIONAL RESOURCES FOR CONSTRUCTION LAONS. IN ADDITION THE OFFICIAL SAVINGS BANK (CAJA DE

AHORROS) IS NEGOTIATING WITH PRIVATE BANKS TO FACILITATE GRANTING OF \$15 MILLION IN MORTGAGES FOR MEDIUM-COST HOUSING. ALSO REAL ESTATE TAXES ARE SUSPENDED FOR TEN YEARS ON CONSTRUCTION INITIATED BETWEEN JANUARY 1976 AND APRIL 1977 AND ON NEW HOUSES ALREADY BUILT BUT FIRST PUT ON MARKET IN 1976. (COMMENT: THESE MEASURES REPRESENT A SPECIAL EFFORT TO GET SEMI-DORMANT CONSTRUCTION INDUSTRY MOVING DURING SOON-TO-BEGIN DRY SEASON. CAMPAIGN BY NATIONAL MORTGAGE BANK, WHICH IS CONTROLLED BY HOUSING MINISTRY, IS RELATED TO PROGRAM UNDERTAKEN AT BEGINNING OF 1975 BY PRIVATE BANKS TO FINANCE \$20 MILLION IN NEW LOW AND MIDDLE-INCOME HOUSING BUT WHICH HAS YET TO GET SUBSTANTIALLY UNDERWAY, REPORTEDLY DUE IN LARGE PART TO BUREAUCRATIC INEFFICIENCIES OF HOUSING MINISTRY. CAJA DE AHORROS HAS REPUTATION FOR MORE EFFICIENT OPERATIONS, WHICH MAKES ITS SEPARATE PROGRAM TO BOOST MORTGAGE FINANCING ALL THE MORE WELCOME. CONTINUED ACTIVITY IN THIS AREA BY LOCAL PRIVATE BANKS WAS SIGNALLED BY DECEMBER 17 ANNOUNCEMENT OF CHASE MANHATTAN LOAN OF \$3.3 MILLION TO REAL ESTATE DEVELOPMENT FOR EXPANSION OF MEDIUM-PRICED HOUSING CONSTRUCTION.)

7. TRANSPORT SUBSIDIES. FINANCE MINISTRY IS AUTHORIZED TO ENTER AGREEMENTS WITH GOVERNMENT-SPONSORED TRANSPORT WORKERS CONFEDERATION (CPTT) TO SUSPEND DUTIES OR TAXES ON FUELS, SUPPLIES AND PARTS IF REQUIRED TO PREVENT INCREASES IN FARES OF TARIFFS FOR TRANSPORTATION OF PASSENGERS AND CARGO. (COMMENT: THIS IMPLEMENTS GOP'S PROMISE AT THE TIME OF RECENT FUEL PRICE INCREASE (PANAMA 7405) TO INSURE THAT TRANSPORTATION COSTS DID NOT RISE AND ALSO PROVIDES FURTHER FAVOR TO GOP-ENCOURAGED CPTT, WHICH GOVERNMENT HAS BEEN USING AS PRIME VEHICLE FOR CHANNELING BENEFITS TO TRANSPORT SECTOR).

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8. TOURISM INCENTIVE. IMPORT TARIFFS ARE REMOVED ON A LONG LIST OF LUXURY ITEMS, INCLUDING PERFUMES, CAMERAS AND EQUIPMENT, SILK, LINENS, RUGS, GEMS, JEWELRY, RADIOS, ETC. (COMMENT: INTENT IS TO ENHANCE PANAMA'S REPUTATION AS "FREE PORT" AND INTERNATIONAL BAZAAR FOR VISITING TOURISTS AND THUS GIVE BOOST TO TOURIST-ORIENTED LOCAL MERCHANTS. DUTIES ON THESE ITEMS NOW AVERAGE AROUND 10 PERCENT.)

9. ANNOUNCEMENT OF THESE MEASURES WAS ACCOMPANIED BY GENERALLY APPROVING COMMENT IN EDITORIALS AND BY COLUMNISTS IN DECEMBER 17 PRESS. ACTUAL ECONOMIC IMPACT OF THIS SERIES OF MEASURES WILL TAKE SOME TIME TO BECOME EVIDENT, BUT GOP APPEARS TO ATTRIBUTE AT LEAST AS MUCH IMPORTANCE TO HOPES THAT IT WILL ASSIST IN CURRENT ECONOMIC PROBLEMS THROUGH HELPING TO RESTORE BUSINESS CONFIDENCE. THIS ANTICIPATED RESULT SUMMED

UP IN EDITORIAL IN PRO-GOP "MATUTIONO", WHICH CHARACTERIZED
LEGISLATIVE PACKAGE AS "AN AMBITIOUS PLAN TO HARMONIZE THE
INTERESTS OF THE STATE, PRIVATE ENTERPRISE, AND ALSO FOREIGN
INVESTMENTS." IT IS ALSO NOTABLE THAT THIS PACKAGE WAS NOT
ACCOMPANIED BY SIMULTANEOUS ENACTMENT OF PROPOSED MODIFI-
CATIONS IN LABOR LAWS RELATING TO RURAL AND AGRO-INDUSTRIAL
EMPLOYMENT, WHICH PROPOSED CHANGES HAVE CAUSED SOME DISCONTENT AMONG
AFFECTED WORKERS. IT WOULD APPEAR THAT WHILE SEEKING TO RESTORE
BUSINESS CONFIDENCE, GOP DOES NOT YET FEEL CONFIDENT ENOUGH
TO PUSH THROUGH LATTER MEASURE WITHOUT FURTHER
CONSULTATION ON LABOR RESERVATIONS CONCERNING IT.
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